

RD AN No. 3717 (1980-D)  
March 1, 2002

TO: All State Directors  
Rural Development

ATTENTION: Rural Housing Program Directors, Guaranteed Rural Housing  
Specialists, Rural Development Managers, and Community  
Development Managers

FROM: James C. Alsop *(Signed by James C. Alsop)*  
Acting Administrator  
Rural Housing Service

SUBJECT: Single Family Housing Guaranteed Loan Program (SFHGLP)  
Existing Dwelling Inspections made in accordance with RD  
Instruction 1980-D, Section 1980.341(b)(1)(i)

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to elaborate upon the forms of existing dwelling inspections acceptable for loans guaranteed under the SFHGLP.

The intended outcome of this AN is to establish that the Rural Housing Service (RHS) encourages the use of Valuation Condition (VC) Forms prepared in accordance with HUD Handbook 4150.2 for compliance with the requirements of RD Instruction 1980-D, Section 1980.341(b)(1)(i).

COMPARISON WITH PREVIOUS AN:

There is no previous AN on this subject.

EXPIRATION DATE:  
February 28, 2003

FILING INSTRUCTIONS:  
Preceding RD Instruction 1980-D

## BACKGROUND:

The basic objective of the SFHGLP is to assist eligible rural households in obtaining adequate, decent, safe and sanitary homes.

To this end, an existing dwelling must be inspected to determine that the dwelling meets the current requirements of:

- HUD Handbook 4150.2, *Valuation Analysis for Home Mortgage Insurance for Single Family One- to Four-Unit Dwellings* (Appraisal Handbook), and
- HUD Handbook 4905.1, *Requirements for Existing Housing-One to Four Family Living Units*.

### Notes:

- In June 1999, HUD issued Handbook 4150.2 to replace the appraiser requirements of Handbook 4150.1 REV-1, *Valuation Analysis for Home Mortgage Insurance*.
- The SFHGLP uses HUD Handbook 4150.2 in place of Handbook 4150.1. We are in the process of updating SFHGLP regulations to refer to the new handbook.
- HUD handbooks and forms can be downloaded over the Internet at <http://www.hudclips.org> or obtained by calling 1-800-767-7468.
- FHA appraisers can be located at <https://entp.hud.gov/idapp/html/apprlook.cfm>.

## COMPREHENSIVE VALUATION PACKAGE

At the same time HUD Handbook 4150.2 was introduced, HUD introduced the Comprehensive Valuation Package (CVP) as Appendix D to this handbook. The CVP has three parts.

Part I is the “Uniform Residential Appraisal Report” (URAR) and required attachments.

Part II is the “Valuations Conditions-Notice to the Lender, HUD-92564-VC” (VC Form). A home inspection is not required to complete the VC Form. The physical condition of existing building improvements is examined at the time of appraisal to determine whether repairs, alterations or additions are necessary or essential to eliminate conditions threatening the continued physical security of the property. The VC Form clearly shows the items needed to meet HUD’s Minimum Property Standards or Requirements (MPS/MPR). Required repairs are limited to necessary requirements commonly referred to as the three S’s Rule:

- Preserve the continued marketability of the property (**Salability**)
- Protect the health and safety of the occupants (**Safety**)
- Protect the security of the property (**Security**)

Part III is the disclosure to FHA homebuyers titled “Homebuyer Summary-Notice to the Homebuyer, HUD-92564-HS” (Homebuyer Summary).

*Note: RHS does not require Part III for loans guaranteed under the SFHGLP.*

### COMPLIANCE WITH EXISTING PROPERTY INSPECTION REQUIREMENTS

The VC Form specifically addresses the repairs that must be completed in order for the property to be acceptable under the SFHGLP. A VC Form prepared in accordance with HUD Handbook 4150.2 by an appraiser designated on the FHA register is an acceptable form of documentation to comply with RD Instruction 1980-D, Section 1980.341(b)(1)(i).

Alternatively, a home inspection report prepared by a home inspector deemed qualified by the lender may be obtained. The home inspection report must contain information substantially similar to that covered by the VC Form, specifically including:

- the physical condition of the structure including the roof surface and foundation;
- the condition of the major mechanical systems including plumbing, electrical, heating and cooling;
- any readily observable site hazards;
- any readily observable property considerations such as drainage problems or evidence of wood infestation, and;
- any repairs necessary for the dwelling to be structurally sound, functionally adequate and in good repair.

A home inspection that meets the above requirements is adequate to ensure compliance with RD Instruction 1980-D, Section 1980.341(b)(1)(i).

In addition to the VC Form or home inspection report, the lender must obtain documentation for an existing dwelling showing:

- the existing dwelling meets the thermal standards per RD Instruction 1980-D, Section 1980.313(f);
- individual water supply and sewage disposal systems have been inspected and determined to meet the requirements of the health authority having jurisdiction;
- any repairs necessary for the dwelling to be structurally sound, functionally adequate and in good repair have been completed prior to requesting the Loan Note Guarantee, or the escrow account requirements of RD Instruction 1980-D, Section 1980.315 have been met;
- the results of a pest inspection if required by the inspector, appraiser or lender.

### IMPLEMENTATION RESPONSIBILITIES:

In keeping with the standards of this Administrative Notice, RHS field staff reviewing loan files under the SFHGLP are reminded of the following:

- This AN does not change the appraisal requirements in RD Instruction 1980-D, Section 1980.334.
- The VC Form does not require that a home inspection be completed. Homebuyers, however, may choose to obtain an independent home inspection to assist them in their home purchase decision.
- Properties that meet HUD's Minimum Property Standards or Requirements should be considered to be in compliance with the repair requirements in RD Instruction 1980-D, Section 1980.313(h).
- RHS requires only those repairs necessary to ensure that the dwelling is structurally sound, functionally adequate, and in good repair under RD Instruction 1980-D, Section 1980.313(h). Conditions that do not ordinarily require repair include any surface treatment, beautification or adornment not required for the preservation of the property.
- A completed VC Form should be accepted for compliance with Section 1980.341(b)(1)(i).

State Offices having questions regarding this AN should contact Robert E. Keyes or Joaquin Tremols by calling (202) 720-1452 or by emailing to [rkeyes@rdmail.rural.usda.gov](mailto:rkeyes@rdmail.rural.usda.gov) or [jtremols@rdmail.rural.usda.gov](mailto:jtremols@rdmail.rural.usda.gov).